

Supplemental Guidelines For the Schedule of Allowable Expenditures in Oil and Gas Permits

OIL AND GAS ACT OIL AND GAS DISPOSITION REGULATIONS

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PREAMBLE

These are the *Supplemental Guidelines for the Schedule of Allowable Expenditures in Oil and Gas Permits* (Supplemental Guidelines) issued under the *Oil and Gas Act* (Act) as a result of a Call for Work Bids.

Section 12 of the *Oil and Gas Disposition Regulations* (OGDR) under the Act provides for procedures respecting the full or partial return or refund of a work deposit furnished in respect of Permit issued as a result of a Call for Work Bids. As allowable expenditures are incurred during the initial term of the Permit or any extension of that term, the work deposit is returnable or refundable in accordance with section 12 of the OGDR. A work deposit represents 25% of the total amount of the work bid, therefore for the Permit, returns or refunds are prorated on the basis of 25% of allowable expenditures incurred. Allowable expenditures are based on the costs of work and purchases related to exploration for oil or gas in the Location of the Permit.

The Schedule of Allowable Expenditures in each Permit describes in general terms the kinds of expenditures that may be approved by the Division Head as allowable expenditures. Only approved allowable expenditures can be used in the calculation of a refund or partial refund of the work deposit. The purpose of these Supplemental Guidelines is to provide in more detail the manner of calculating allowable expenditures and the procedures related to applications for returns or refunds.

SECTION A: GENERAL

Interpretation

The following are definitions and explanations of concepts used in these Supplemental Guidelines.

Applicant and Permittee

The Applicant is:

- a) the Permittee, or
- b) where the Permittee has a designated representative, that representative.

The Permittee is:

- a) the holder of record of the Permit, or
- b) the co-holders of record of the Permit collectively, where there is more than one holder.

Fair Market Value

Approval of allowable expenditures will normally be based on:

- a) the amount charged to the Permittee;
- b) the actual cost incurred by the Permittee or its Affiliate; or
- c) the Permittee's share of the cost of goods and services when the cost is shared and billed to the participants under a joint operating agreement or other contractual arrangement.

However, the Division Head may require that approval of allowable expenditures be based on Fair Market Value in these cases:

- a) when the Permittee (or its Affiliate) and the supplier of the goods or services are not dealing at arm's length;
- b) when the goods or services are supplied to the Permittee by its Affiliate;
- c) when the Permittee (or its Affiliate) and the supplier of the goods or services deal at arm's length but the expenditure claimed is, in the Division Head's opinion, inflated due to a collateral benefit that passes from the supplier to the Permittee; or
- d) when the consideration for the goods or services is only partly money or something other than money.

For the purposes of these Guidelines, the “Fair Market Value” of goods or services is its value determined on the basis of commercial transactions occurring in or near the immediate area among persons who are not affiliated. The following criteria apply, when possible, to determine the Fair Market Value for any given goods or services:

- the price of comparable goods and services, if that price is published and generally adopted by buyers and sellers of such goods and services;
- an average of the prices paid for comparable goods and services in transactions in which the buyers and sellers are not Affiliates of each other;
- the price or average of prices used to determine the market value may be adjusted to reflect transportation or delivery costs, if any, from the point at which fair market value is determined to the work site.

If commercial or competitive rates are not available due to remoteness of location or unique specialized equipment and cannot be determined by the methods specified above, “Fair Market Value” will be determined in accordance with the Petroleum Accountants Society of Canada (PASC) accounting standards and procedures.

Affiliated Persons

Two persons are affiliated if:

- a) they are not dealing at arm’s length;
- b) one of the persons is a corporation in which the other person has an equity percentage of not less than 10%; or
- c) both those persons are corporations and a third person has an equity participation of not less than 10% in both corporations.

In these Guidelines, “Affiliate” refers to a person affiliated with the Permittee.

Arm’s-length Transactions

Yukon government uses Section 251 of the Income Tax Act (Canada) and Canada Revenue Agency Tax Information Bulletin IT-419R2 in determining whether a transaction is considered to be at arm’s length.

APPLICATIONS FOR APPROVAL OF ALLOWABLE EXPENDITURES

Utilization of the Permittee's (or Affiliate's) Employees

The Applicant may claim the salaries and wages of its employees and the employees of its Affiliates directly employed at the exploration program site and engaged in an exploration program. For both joint and 100% operations, the Applicant will adhere to the direct charge provisions and principles enumerated in the most recent PASC Accounting Procedure applicable to exploration joint operations in the particular region. If there is no PASC Accounting Procedure generally accepted by industry for Yukon at the time of application, then the standards set out in the most recent PASC Accounting Procedure applicable to exploration joint operations in Western Canada will apply.

Certification and Audit

All applications for the approval of allowable expenditures must be accompanied by a statement issued by an duly authorized officer of the Applicant, or by a professional engineer, geologist or geophysicist, certifying that the cost statement is true and accurate to the best of his or her knowledge.

Applications related to well drilling operations must be accompanied by a cost statement prepared and certified by an external auditor in accordance with audit and professional standards established by the Canadian Institute of Chartered Accountants.

All allowable expenditures are subject to approval by the Division Head and may be subjected to a post audit if ordered by the Division Head.

Application Procedure

An application for approval of allowable expenditures must be made by the Permittee or the Applicant, or, if the Permittee has a designated representative, by that representative. See section 21 of the Act and section 13 of the OGDR respecting designated representatives.

Applications are to be made in accordance with the following:

- a) an application relating to allowable expenditures incurred in respect of a year of the initial term of the Permit may, subject to paragraph (c), be made at any time after the expiration of that year;
- b) an application relating to allowable expenditures incurred in respect of an extension of the initial term under section 35 of the Act may, subject to paragraph (c), be made after the expiration of that extension period;
- c) no application may be made after the 12-month period following the expiration of the initial term or the extension period, as the case may be.

The Applicant should consult with the Division Head of Oil and Gas Resources of the Department of Energy, Mines and Resources in cases where these Supplemental Guidelines do not adequately address a proposed exploration program or where there is an issue respecting the application or interpretation of these Supplemental Guidelines.

SECTION B: MOBILIZATION AND DEMOBILIZATION

The Applicant may claim the costs of mobilization and/or demobilization (Mob/Demob) of equipment and supplies that are distinct cost elements of an operation and are charged directly to the operation. The costs must be reasonable in the circumstances and must be adequately documented (such as by a third party invoice or a joint venture billing statement).

Contract termination charges incurred by the Permittee or its Affiliate under contracts that were entered into in good faith in order to mobilize and retain equipment may be included as a demobilization expense.

When equipment (for example, seismic party or drilling rig) is mobilized to a region or area to conduct more than one operation, there will be a reasonable allocation of Mob/Demob costs among the operations utilizing the equipment. In such cases the allowable expenditure will be the lesser of:

- a) the actual mobilization/demobilization cost charged against the operation and documented by a third party invoice or a joint venture billing statement; and
- b) a reasonable allocation of cost using the following formula or a similar calculation method.

Allocated Mob/Demob Cost =

$$\frac{(\text{full cost of Mob/Demob}) \times (\text{operational days for operation subject to the allowable expenditure claim})}{(\text{total operational days between Mob and Demob})}$$

For a well drilling operation: 'operational days' commence on the spud date and conclude at the rig release date of the drilling rig.

For a seismic operation: 'operational days' commence when data recording or shot hole drilling (if applicable) commences and concludes when data recording concludes.

Example 1

A seismic party is mobilized to the North for a single season and used by Company A for a 30-day program and by Company B for a 60-day program. The full cost of mobilization and demobilization is \$900,000.

$$\begin{aligned} \text{Mob/Demob Cost Allocated to Company A} &= \\ &= \frac{(\$900,000) \times (30)}{(90)} = \$300,000.00 \end{aligned}$$

$$\begin{aligned} \text{Mob/Demob Cost Allocated to Company B} &= \\ &= \frac{(\$900,000) \times (60)}{(90)} = \$600,000.00 \end{aligned}$$

Example 2

A drilling rig is mobilized to the North and remains in the region for 3 drilling seasons. The full cost of mobilization and demobilization is \$3,000,000. Company A drilled a 100-day well in year 1, Company B drilled a 120-day well in year 2, and Company C drilled an 80-day well in year 3.

$$\text{Mob/Demob Cost Allocated to Company A} = \frac{(\$3,000,000) \times (100)}{(300)} = \$1,000,000$$

$$\text{Mob/Demob Cost Allocated to Company B} = \frac{(\$3,000,000) \times (120)}{(300)} = \$1,200,000.00$$

$$\text{Mob/Demob Cost Allocated to Company C} = \frac{(\$3,000,000) \times (80)}{(300)} = \$800,000.00$$

SECTION C: STANDBY COSTS BETWEEN SEASONS

Generally, standby charges will be an integral cost component of a drilling or seismic operation and will be evidenced by a joint venture billing statement or an approved Authorization for Expenditure (AFE) with a supporting third party invoice. However, the Permittee may incur between-season standby charges that may not be directly charged to an operation. The Applicant may include additional standby costs in the claim for allowable expenditures if the following conditions are met:

1. An associated operation must in fact have been carried out. Stand-alone standby charges are not an allowable expenditure.
2. The costs must have been incurred by the Permittee and are supported by documentation such as a third party invoice.
3. The costs are considered reasonable in the circumstances.
4. There is a fair allocation of the standby costs to all operations that utilized the equipment (for example, drilling rig or seismic party) prior to and following the standby period.

Example 1

During Season 1, a drilling rig was used to drill a 60-day well (Well #1) outside the Permit location and a 90-day well (Well #2) on the Permit location. The Applicant was billed \$2,000,000 for standby between Season 1 and Season 2. During Season 2, the Permittee drilled two 75-day wells (Well #3 and Well #4) on the Permit location.

An acceptable allocation of the \$2,000,000 standby charge is \$400,000 to Well #1, \$600,000 to Well #2 and \$500,000 to each of Well #3 and Well #4. There may be additional standby charges allocated to Well #3 and Well #4 if standby charges are incurred between Seasons 2 and 3.

SECTION D: STAGING AREAS

Costs incurred by the Permittee to construct and maintain a multi-season, regional staging area/base camp or staging area/base camp entailing charges billed to the Permittee by a third party are not an allowable expenditure. These costs are considered to be within the category of support costs offset by the 10% Miscellaneous Cost Allowance.

The costs of establishing a single season or single purpose staging site will be considered as an allowable expenditure for the associated operation or operations and will receive full 'at cost' treatment.

SECTION E: WELL DRILLING OPERATIONS

The usual starting point for accumulation of allowable expenditures is the commencement of access road and drilling site construction or the commencement of movement of the drilling rig, consumables and equipment from a staging area to the drilling location, whichever occurs first.

Allowable expenditure accumulation will usually terminate when the drilling rig and equipment have been re-stacked at a staging area or at conclusion of the Permittee's contractual obligations for the drilling rig, whichever occurs last.

Under the conditions described in Sections B and C, the Permittee may also include costs of Mob/Demob and 'between seasons' standby charges in the allowable expenditure claim.

The Applicant can claim costs for drilling site preparation, such as berm construction or access road construction that were incurred in the operating season(s) prior to the season when the well is spudded. However, these costs are not claimable until the drilling operation is complete.

The Applicant can also claim the 10% Miscellaneous Cost Allowance to cover costs related to internal general and administrative expenses, community consultation visits, project supervision and management, data interpretation and analysis, report preparation, regional staging area and base camp charges, regional office operations and follow-up site clean-up and reclamation carried out after the end of the initial term of the Permit. No documentation is required to support a claim for the 10% Miscellaneous Cost Allowance.

The Applicant shall submit an itemized cost breakdown, using the following format as a model where applicable. However, the Applicant may choose an alternative format that presents drilling operation costs at a comparable level of detail as the prescribed format. If the Applicant submits a copy of an approved AFE to support the expenditure claim, it must be adjusted to reflect actual incurred costs and must conform to all the cost eligibility limitations set out in these Supplemental Guidelines, for example, any land use fees and surface rentals appearing on the AFE should be excluded from the application.

1. Access and Drilling Site Preparation

(May include airstrips, staging areas or docking facilities specifically constructed to support the drilling operation.)

Note: A claim for access facility preparation expenditures will be reduced by the value of any remuneration or consideration received by the Permittee from another party for rental or usage of the access road, airstrip or staging area. Also, if the facility is utilized to support other operations, the Applicant should make a reasonable cost allocation between operations and adjust the claim accordingly.

Date operation commenced _____

Date operation concluded _____

Total construction days _____

Length of access road _____ kms.

Specify type and location of any other support facilities, (for example, airstrip, staging area, docking facility).

Access Facility Construction Costs

Access road \$ _____

Airstrip \$ _____

Staging area and/or docking facility \$ _____

Other construction costs (specify) \$ _____

Less: revenue received from 3rd party users \$ _____

costs allocated to other operations \$ _____

Total Access Facility Construction Costs \$ _____

Drilling Site Construction

Date construction commenced _____

Date construction concluded _____

Total construction days _____

Drilling Site Construction Cost \$ _____

Use of Permittee's (or its Affiliate's) Equipment and Personnel

Include any additional costs of the Permittee's (or Affiliate's) equipment and/or personnel utilized during access road and drilling site preparation that have not been captured in the above cost items. Please refer to the relevant Interpretation provisions in Section A: General.

Use of Permittee's (or Affiliate's) equipment.....\$ _____
 Employment of on-site Permittee's
 (or Affiliate's) personnel\$ _____

Total Cost of Access and Drilling Site Preparation: \$ _____

2. Transportation

Include any transportation charges that are not captured elsewhere in the application such as within the drilling day work rates or mobilization/demobilization charges.

Air transportation.....\$ _____
 Trucking costs (including rig and camp moves, etc).....\$ _____
 Other transportation (specify)\$ _____

Toll Charges for 3rd Party Access Roads and Facilities

Include usage charges for 3rd Party airstrips or staging areas used to directly support the drilling operation.

Location and description of 3rd party access road or other facility:

Unit cost (i.e. cost per kilometer,
 cost per day, etc. if applicable)\$ _____

Name of party receiving the payments _____

Road use tolls.....\$ _____
 Airstrip landing fees\$ _____
 Other (specify)\$ _____

Total toll charges \$ _____

Use of Permittee's (or Affiliate's) Equipment and Personnel

Include any additional costs of the Permittee's (or Affiliate's) equipment and/or personnel utilized during transportation that have not been captured in the above cost items. Please refer to the relevant Interpretation provisions in Section A: General.

Use of Permittee's (or Affiliate's) equipment\$ _____
 Employment of on-site Permittee's (or Affiliate's) personnel.....\$ _____

Total Transportation Costs:\$ _____

3. Drilling and Abandonment Operations

Including the setting of casings, logging, coring, drillstem testing and well abandonment.

Spud date _____
 Rig release date _____
 Total drilling days _____

Drilling day work\$ _____
 Directional drilling and surveys\$ _____
 Logging programs.....\$ _____
 Coring programs.....\$ _____
 Drill stem testing (open or cased hole)\$ _____

Consumables

Fuels and lubricants\$ _____
 Drilling fluid products\$ _____
 Bits\$ _____
 Cement.....\$ _____
 Casing and tubulars.....\$ _____
 Other (specify)\$ _____

Total consumables\$ _____

Equipment rentals.....\$ _____
 Camp and catering costs\$ _____
 Well abandonment.....\$ _____

Other costs associated with drilling and abandonment.
 (Identify any individual cost item that exceeds \$50,000.).....\$ _____

Use of Permittee’s (or Affiliate’s) Equipment and Personnel

Include any additional costs of the Permittee’s (or Affiliate’s) equipment and/or personnel utilized during drilling and abandonment operations that have not been captured in the above cost items. Please refer to the relevant Interpretation provisions in Section A: General.

Use of Permittee’s (or Affiliate’s) equipment.....\$ _____
 Employment of on-site Permittee’s (or Affiliate’s) personnel\$ _____

Total Drilling and Abandonment Costs: \$ _____

4. Site Clean-up, Restoration and Environmental Services

Include all costs of clean-up and restoration of the drilling site, access road, etc. and for environmental services incurred before the expiration of the initial term of the Permit or any extension of the initial term of the Permit under section 35 of the Act.

Drilling site clean-up and restoration\$ _____
 Access road and other facility restoration\$ _____
 Environmental services (including monitors)\$ _____

Use of Permittee’s (or Affiliate’s) Equipment and Personnel

Include any additional costs of the Permittee’s (or Affiliate’s) equipment and/or personnel utilized on-site, during clean-up, restoration and environmental monitoring that have not been captured in the above cost items. Please refer to the relevant Interpretation provisions in Section A: General.

Use of Permittee’s (or Affiliate’s) equipment.....\$ _____
 Employment of on-site Permittee’s (or Affiliate’s) personnel\$ _____

Total Clean-up, Restoration and Environmental: \$ _____

5. Additional Costs (if applicable)

Mobilization/Demobilization

Attach the following to the application:

- a) a brief description of the Mob/Demob operation, including points of departure, transfer and/or return, key dates, mode(s) of transport, etc.;
- b) documentation supporting the charge (for example, third party invoice, joint venture billing statement);
- c) if total costs are allocated among more that one drilling operation, provide the allocation formula (refer to Section B: Mobilization and Demobilization).

Cost of Mobilization and/or Demobilization: \$ _____

Standby Costs

Attach the following to the application:

- a) a brief justification statement for the standby charges, including key dates and location(s) of the stacked equipment;
- b) documentation supporting the charge (for example, third party invoice, joint venture billing statement);
- c) if total costs are allocated among more that one drilling operation, provide the allocation formula (refer to Section C: Standby Costs Between Seasons).

Standby Costs:\$ _____

Total Additional Costs: \$ _____

Total Drilling Operation Cost:..... \$ _____

10% Miscellaneous Cost Allowance: \$ _____

SECTION F: GEOPHYSICAL (SEISMIC) OPERATIONS

The usual starting point for accumulation of allowable expenditures is the commencement of access road, airstrip, seismic line or camp site construction or the commencement of movement of the seismic and/or clearing equipment from a staging area, whichever occurs first.

Allowable expenditures accumulation will usually terminate when the seismic party has been re-stacked at a staging area or at the conclusion of the Permittee's contractual obligations for the seismic party, whichever occurs last.

Under the conditions described in Sections B and C, the Applicant may also include costs of Mob/Demob and 'between seasons' standby charges in the allowable expenditure claim.

The Applicant can claim costs for facility construction (for example, airstrips, staging areas, access roads) that were incurred in the operating season(s) prior to the season when the seismic operation commenced. However, these costs are not claimable until the operation is complete.

Seismic operations within the boundaries of the Permit location and for a distance of 3 kilometers outside the location are eligible. In addition, individual lines extending beyond the 3-kilometer limit, acquired for the purpose of establishing well tie-ins or tie-ins to existing proximate seismic surveys, may be accepted upon the approval of the Division Head.

The Applicant can also claim the 10% Miscellaneous Cost Allowance to offset costs such as internal general and administrative costs, community consultation visits, project supervision and management, data interpretation and analysis, report preparation, regional staging area and base camp charges, regional office operations and follow-up site clean-up and reclamation carried out after the end of the initial term of the Permit. No documentation is required to support a claim for the 10% Miscellaneous Cost Allowance.

The application shall provide an itemized cost breakdown, using the following format as a model where applicable. However, the Applicant may choose an alternative format that presents seismic operation costs at a comparable level of detail as the prescribed format. If the Applicant submits a copy of an approved AFE to support the expenditure claim, it must be adjusted to reflect actual incurred costs and must conform to all the cost eligibility limitations set out in these Supplemental Guidelines, for example, any land use fees and surface rent appearing on the AFE should be excluded from the application.

1. Access Road Preparation and Maintenance

(May include airstrips, staging areas or docking facilities specifically constructed to support the seismic operation.)

Note: A claim for access facility preparation will be reduced by the value of any remuneration or consideration received by the Permittee from another party for rental or usage of the access road, airstrip or staging area. Also, if the facility is utilized to support other operations, the Applicant should make a reasonable cost allocation between operations and adjust the claim accordingly.

Date operation commenced _____

Date operation concluded _____

Total construction days _____

Length of access road _____ kms.

Specify type and location of any other support facilities. (for example, airstrips, staging area).

Access Construction and Maintenance Costs

Access road \$ _____

Airstrip \$ _____

Staging area \$ _____

Other construction costs (specify) \$ _____

Less: revenue received from 3rd party users \$ _____

costs allocated to other operations \$ _____

Total Access Facility Construction and Maintenance Costs \$ _____

Use of Permittee's (or Affiliate's) Equipment and Personnel

Include any additional costs of the Permittee's (or Affiliate's) equipment and/or personnel utilized during preparation of access road and other facilities that have not been captured in the above cost items. Please refer to the relevant Interpretation provisions in Section A: General.

Use of Permittee's (or Affiliate's) equipment \$ _____

Employment of on-site Permittee's (or Affiliate's) personnel \$ _____

Total Cost of Access Preparation: \$ _____

2. Transportation

Include any transportation charges that are not captured elsewhere in the application such as within geophysical contractor rates or mob/demob charges.

Air Transportation\$ _____
 Trucking costs (including camp and/or party moves).....\$ _____
 Other transportation (specify)\$ _____

Toll Charges for 3rd Party Access Roads and Facilities

Include usage charges for 3rd party airstrips or staging areas used to directly support the seismic operation.

Location and description of 3rd party access road or other facility.

Unit cost (i.e. cost per kilometer, cost per day, etc. if applicable)\$ _____

Name of party receiving the payments _____

Road use tolls.....\$ _____
 Airstrip landing fees\$ _____
 Other (specify)\$ _____

Total Toll Charges\$ _____

Use of Permittee's (or Affiliate's) Equipment and Personnel

Include any additional costs of the Permittee's (or Affiliate's) equipment and/or personnel utilized during transportation that have not been captured in the above cost items. Please refer to the relevant Interpretation provisions in Section A: General.

Use of Permittee's (or Affiliate's) equipment.....\$ _____
 Employment of on-site Permittee's (or Affiliate's) personnel\$ _____

Total Transportation Costs:\$ _____

3. Seismic Operations

Date seismic operations commenced _____
 Date seismic operations concluded... _____
 Total operational days
 (including "weather days") _____

Line preparation (slashing, bulldozing, etc.)\$ _____
 Drilling (if applicable)\$ _____
 Recording (including cost of vibrator or air gun operations).....\$ _____

Consumables

Fuel and lubricants\$ _____
 Explosives\$ _____
 Drill supplies\$ _____
 Other (specify)\$ _____

Total consumables\$ _____

Camp and catering\$ _____
 Other costs associated with seismic operations
 (Identify any individual cost item that exceeds \$50,000.).....\$ _____

Use of Permittee's (or Affiliate's) Equipment and Personnel

Include any additional costs of the Permittee's (or Affiliate's) equipment and/or personnel utilized during seismic operations that have not been captured in the above cost items. Please refer to the relevant Interpretation provisions in Section A: General.

Use of Permittee's (or Affiliate's) equipment\$ _____
 Employment of on-site Permittee's (or Affiliate's) personnel\$ _____

Total Seismic Operations Costs:\$ _____

4. Site Clean-up, Restoration and Environmental Services

Include all costs of clean-up and restoration of seismic lines, camp sites, access road, etc. and for environmental services incurred before the expiration of the initial term of the Permit.

Seismic line and campsite clean-up and restoration\$ _____
 Access road and other facility restoration\$ _____
 Environmental services (including monitors)\$ _____

Use of Permittee's (or Affiliate's) Equipment and Personnel

Include any additional costs of the Permittee's (or Affiliate's) equipment and/or personnel utilized during clean-up, restoration and environmental monitoring that have not been captured in the above cost items. Please refer to the relevant Interpretation provisions in Section A: General.

Use of Permittee's (or Affiliate's) equipment\$ _____
 Employment of on-site Permittee's (or Affiliate's) personnel\$ _____

Total Clean-up, Restoration and Environmental: \$ _____

5. Seismic Data Processing

The Applicant can claim the full cost of seismic data processing subject to an arm's length contract with a non-affiliated contractor. If the processing is carried out by an Affiliate of the Permittee or performed "in-house" utilizing the Permittee's own data processing facilities, then Fair Market Value will be applied to determine the allowable expenditure. Claims for non-arm's-length processing should include an explanation and justification for the claimed amount.

Name of processing contractor(s) _____

Contract cost (specify by individual contract
 if more than one contract is involved):\$ _____

and/or

Name of Affiliate providing processing service _____

Cost (in compliance with Fair Market Value provisions):\$ _____

and/or

Cost of "in-house" processing
 (in compliance with Fair Market Value provisions):.....\$ _____

6. Additional Costs (if applicable)

Mobilization/Demobilization

Attach the following to the application:

- a) a brief description of the Mob/Demob operation, including points of departure, transfer and/or return, key dates, mode(s) of transport, etc.;
- b) documentation supporting the charge (for example, third party invoice, joint venture billing statement);
- c) if total costs are allocated among more that one seismic operation, provide the allocation formula (refer to Section B: Mobilization and Demobilization).

Cost of Mobilization and/or Demobilization:\$ _____

Standby Charges

Attach the following to the application:

- a) a brief justification statement for the standby charges, including key dates and location(s) of the stacked equipment;
- b) documentation supporting the charge (for example, third party invoice, joint venture billing statement);
- c) if total costs are allocated among more that one seismic operation, provide the allocation formula (refer to Section C: Standby Costs Between Seasons).

Standby Costs:\$ _____

Total Additional Costs:\$ _____

Total Geophysical (Seismic) Operation Cost:\$ _____

10% Miscellaneous Cost Allowance:\$ _____

SECTION G: DATA PURCHASE AND REPROCESSING

The Applicant may claim the actual cost of seismic data purchased from an arm's-length vendor. Purchase costs for data from seismic operations over lands within the boundaries of the location of the Permit and for a distance of 3 kilometers outside the Permit location boundaries are eligible. In addition, costs related to individual lines extending beyond the 3-kilometer limit, acquired for the purpose of establishing well tie-ins or tie-ins to existing proximate seismic surveys may be approved by the Division Head.

The application should include:

- a) a copy of the purchase invoice;
- b) a copy of the licensing agreement, providing evidence that rights to the data have passed from the original owner to the Permittee; and
- c) a map indicating the locations of the seismic lines and the boundaries of the Permit location.

The Applicant may also claim the direct cost of reprocessing the purchased data if performed by an arm's-length party. Reprocessing of the purchased data under a non-arm's-length arrangement or reprocessing carried out by the Permittee's own personnel and computing equipment will be governed by the relevant Interpretation provisions in Section A: General.

In order to claim the costs of a reprocessing project, the Applicant is required to comply with the reporting requirements as per section 29(5) of the *Oil and Gas Geoscience Exploration Regulations*. That is to say, the Applicant must furnish a report containing the interpreted survey data before the cost is credited against a work deposit.

The Applicant can also claim the 10% allowance Miscellaneous Cost Allowance calculated on the full cost of the data purchase and reprocessing.

SECTION H: REGIONAL AND OTHER WORK PROGRAMS

The cost of all or a portion of a regional geophysical operation (for example, aero-magnetic survey, gravity survey), geological operation or test hole operation that relates directly to the Permit location may be considered as an eligible work program. The Applicant should consult with the Division Head of Oil and Gas Resources prior to commencing work if the intention is to claim costs for any geoscience exploration operation that will be conducted on or over lands beyond the boundaries of the Permit location. Work outside the Permit location may be eligible if the Applicant can demonstrate that the work will directly contribute to the evaluation of the Permit location.

Studies and surveys that are authorized as geophysical, geological or test hole programs, or as field environmental studies directly relevant to proposed programs, will generally be considered eligible. Socio-economic studies, engineering feasibility studies, in-house studies and purchased studies are not considered as comprising exploratory work on the Permit location and will not be considered. However, the Division Head may approve certain programs that will directly or indirectly contribute to evaluation of the Permit location through the application or testing of new technology or techniques.